

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 5, 2009

Mr. Daniel Nikuna
Fiscal Officer
Santa Cruz County Regional Transportation Commission
1523 Pacific Avenue
Santa Cruz, CA 95060-3911

Re: Santa Cruz County Regional Transportation Commission
Audit of Indirect Cost Allocation Plan for Fiscal Year 2008/2009
File Number: P1591-0031 (P1190-0718)

Dear Mr. Nikuna:

We have audited the Santa Cruz County Regional Transportation Commission's (SCCRTC) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. SCCRTC management is responsible for the fair presentation of the ICAP. SCCRTC proposed an indirect cost rate of 101 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SCCRTC. Therefore, we did not audit and are not expressing an opinion on the SCCRTC's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SCCRTC, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of SCCRTC in conformity with generally accepted accounting principles.

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The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of SCCRTC's Overall Work Program for FY 2008/09, a review of SCCRTC's single audit report for the FY ended June 30, 2007, inquiries of SCCRTC personnel and reliance placed on the single audit report for the FY ended June 30, 2007, and prior audit field work performed by the Department staff in January 2008. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, SCCRTC's ICAP for the FY ended June 30, 2009, is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 101 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

SCCRTC requested a provisional rate of 84 percent on October 20, 2008. Audits and Investigations approved the provisional rate on October 30, 2008. As agreed in the provisional rate request, within 30 days of issuance of this audit report, SCCRTC must reconcile all prior reimbursed claims under the provisional rate, with the final approved rate. SCCRTC will include any underpayments on the next billing to the Department. Interest may not be claimed on the underpayments.

Unresolved Prior Finding

SCCRTC does not have separate accounts for some of the operations costs to segregate nonlabor direct, indirect, allowable and unallowable costs. Instead the recipient segregates these costs after the fact manually by reviewing the cost items.

Recommendation:

SCCRTC should create separate accounts to track direct, indirect, allocable, or unallowable operation costs.

Auditee Response:

Auditee did not respond to the current year finding however, in the prior year SCCRTC stated, they feel the cost of implementing these procedures would outweigh the benefit given that SCCRTC utilizes the accounting structure of the County of Santa Cruz.

This report is intended solely for the information of SCCRTC, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 4, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno, Auditor at (916) 323-7885 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance
- Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- Muhaned Aljabiry, Local Assistance Engineer, District 4
- Malcolm Gilmour, Senior Planner, District 4
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SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION

1523 Pacific Ave., Santa Cruz, CA 95060-3911 • (831) 460-3200 FAX (831) 460-3215 EMAIL info@sccrtc.org

Santa Cruz County Regional Transportation Commission Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Santa Cruz County Regional Transportation Commission and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/1/08 to 6/30/09	101%	All Programs

*Base: Total Direct Salaries & Benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency.

Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

FY 2009 Budgeted Indirect Salaries & Benefits	\$ 925,194
Carry Forward	<u>128,361</u>

Estimated FY 2009 Indirect Costs	\$ 1,053,555
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FY 2009 Budgeted Direct Salaries & Benefits	\$ 1,045,877
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FY 2009 Indirect Cost Rate	101%
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CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: **Santa Cruz County Regional Transportation Commission**

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by: **Daniel Nikuna**

Name of Official: **George Dondero**

Name of Official: **Daniel Nikuna**

Title: **Executive Director**

Title: **Fiscal Officer**

Date of Execution: October, 6, 2008

Phone: (831) 460-3200

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Signature

Reviewed and Approved by:

Reviewed and Approved by:

(Name of Audit Manager)

(Name of auditor)

Title: *MARYANNE CAMPBELL-Smyth*

Title: *Associate Management Auditor*

Date: *5 JUNE 09*

Date: *6/5/09*

Phone Number: *(916) 323-7105*

Phone Number: *(916) 323-7885*